

**Information Document Request**

To: (Name of Taxpayer and Company Division or Branch)

Subject

**Capitalization to Repair Costs**

SAIN number

0

Submitted to:

Dates of Previous Requests

**Note to examiner:** Appropriate documentation is needed to support the conclusions in the Tier I Repairs vs. Capitalization Change in Accounting Method issue. Examiners who currently encounter this issue must perform a risk analysis to determine whether an examination of the issue is warranted and, if so, the scope of the examination. The sample IDR language contained below is intended as a tool for obtaining records and developing the issue. One or more IDR's may need to be issued. Examiners should *customize* the language to fit each examination.]

**Please provide the following information with respect to the Repairs vs. Capitalization Change in Accounting Method issue:**

1. An executed copy of the engagement letter for the repair study.
2. Copies of all presentation materials prepared by or on behalf of the company.
3. Please furnish copies of all legal authority, apart from the citations contained in Form 3115, supporting the Change in Method of accounting for Tangible Property.
4. Please explain why the Change in Accounting Method was filed at this time. What specifically has occurred that permits a change in the treatment of costs previously capitalized? Discuss.
5. Please explain how the company's GAAP treatment has changed as a result of this Change in Accounting Method for these reclassified costs?
6. Is the company obligated to maintain its books as required by any regulatory agency? Identify and discuss impact.
7. Please furnish copies of any prior agreements with the IRS that impact the assets included in this study or the method of accounting used in this study. These agreements would include closing agreements entered in prior cycles with either examination division or appeals.
8. Were any cost segregation studies previously performed? If so, provide each Form 3115 and the related, work papers, reclassifications, computations, etc.
9. Does the company use a materiality threshold for capitalization? If so, please provide written support for all current and past policies.

**With respect to a F3115 Consent Agreement(s):**

10. Provide a copy of each Advanced Consent Agreement filed and all related correspondence between the company and the National Office.

Information due by

At next appointment ☐

Mail in ☐

From:

Name and title of requester

Internal Revenue Agent

Employee ID number

Date

Office Location:

Telephone:

### Information Document Request Attachment

Taxpayer Name:	Request Number:
Taxpayer Identification Number:	Cycle Years:

11. Provide a copy of each Automatic Consent Agreement filed as well as all supporting documents prepared in response to Revenue Procedure 2009-39.
12. Please provide a copy of the IRC §481(a) computation with respect to the Change in Accounting Method.
13. If the amount of the IRC §481(a) adjustment per return differs from the IRC §481(a) adjustment contained on Form 3115, and approved either as an advanced consent or an automatic consent, please provide an explanation for the difference.

#### With respect to the Repair Study:

14. Which entities are included in this study?
15. Electronic data files of the complete repair study including all schedules, spreadsheets, check sheets and attachments. (excel format if possible)
16. How did you determine the population to be considered in this study?
17. What are the primary projects covered by this study? (1245, 1250 property, categories of properties)
18. Please provide access to all engineering studies, construction drawings, specifications, or similar documentation for assets included in the repair study.
19. Please provide a list of all property locations visited in preparing the repair study.
20. Please provide a list containing names and titles of all company personnel interviewed for the repair study and copies of the interview notes resulting from these interviews.
21. What methodology was used in preparing the repair study:
  - a. Sampling - Judgment, Modeling, Statistical, other. Discuss.
  - b. Actual costs or estimated costs? Discuss.
  - c. Dollar thresholds? Discuss.
22. Was the study based on:
  - a. Contemporaneous records.
  - b. Reconstructed records.
  - c. Estimates without supporting documentation.
23. What is the company's asset retirement policy with respect to capitalized property that is replaced (e.g., abandonment loss, continuation of depreciation, other). Did the treatment change as a result of the repair study?
24. What is the company's routine maintenance policy with respect to its properties? What department is responsible for overseeing and performing routine maintenance? Discuss.
25. Does the company have a minimum threshold for capitalizing costs for book and for tax? Provide any written policy statements to this effect. Discuss.
26. How were any asset dispositions treated for tax? For book? (both 1245 and 1250 property)

#### With respect to the Unit of Property:

27. Describe the Unit of Property determinations made for the repairs study. Provide supporting tax law for each determination of the Unit of Property.
28. How have the Unit of Property definitions changed for your company currently as opposed to the definitions used in prior years?
29. Please provide project files for each project included in the repairs study. These files should contain explanations of the condition of the property prior to the project, what work was done, why it was done, when the project began and ended.

## Information Document Request Attachment

Taxpayer Name:	Request Number:
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30. Please provide all company planning files and related contracts addressing the construction of additions, reconstruction of properties, reconfiguring of property (§1245 and §1250), adding or upgrading structural components.

### With respect to computations:

31. Please provide copies of the depreciation and/or fixed asset schedules, for both book and tax, pre and post change in accounting method.
32. Have any insurance proceeds been received with respect to costs previously capitalized? If yes, how were the proceeds treated for book and for tax?
33. Were any landlord incentives received to build out leased spaces? If yes, how were these incentives treated for book and for tax?
34. Were any monetary incentives (including, but not limited to, tax incentives, vendor/supplier incentives, construction allowances) received from third parties or state or local governments with respect to any properties? If yes, how were these incentives treated for book and for tax?
35. Please provide the computations for IRC § 263A costs inclusive of §263A(f) interest capitalization costs related to self-constructed assets. Were there any changes to the computations as a result of the repair study? Discuss.
36. Please provide tax computations made as a result of this Change in Accounting Method. Be sure to include computational changes to the Domestic Production Deduction §199; Research & Experimental Expenses §174; Basis Adjustments §1016; Contributions to Capital §118 and §362.
37. Has this Change in Accounting Method impacted the AMT or ACE computation?

### With respect to Remodels:

38. Please provide a copy of the company's policy with respect to remodels.
39. What is the company's capital budget process for initiating and approving remodels?
40. Please provide the names and titles of company employees who oversee remodeling projects.
41. Provide copies of all approved project folders for the assets impacted by the Repairs study.
42. How often are stores or business premises remodeled? Discuss.
43. Describe and discuss the type of work performed in a store remodel. Major remodel? Medium remodel? Small remodel? Other remodel?
44. How are remodeling costs treated pre and post repair study? Discuss.
45. Are remodeling costs tracked on a project basis? Discuss.
46. How are remodeling costs treated for GAAP?

### With respect to and Additional Documents:

47. **Should any documents exist which relate in any way to the issue identified in this IDR and which the taxpayer asserts are privileged, please provide a privilege log for these documents. The privilege log should include: the date of the document; identification of the author, sender, and recipient of the document; subject matter of the document; specific privilege asserted with respect to the document; and a list of all people or entities who have been provided the document. This request applies to all privileged information with respect to this issue irrespective of whether the privileged information was specifically requested in this IDR.**

\*\*End\*\*